

VIRGINIA:

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT: VIRGINIA GAS COMPANY)

RELIEF SOUGHT:)

(1) ESTABLISHMENT OF THE DRILLING)
 UNIT DESCRIBED IN EXHIBIT "A")
 HERETO AND SERVED BY WELL NO.)
 EH-65 (herein "Subject)
 Drilling Unit") PURSUANT TO)
 \$ 45.1-361.20, CODE OF)
 VIRGINIA, AND (2) POOLING OF)
 INTERESTS IN SUBJECT DRILLING)
 UNIT PURSUANT TO \$ 45.1-361.21,)
 CODE OF VIRGINIA, FOR THE)
 PRODUCTION OF CONVENTIONAL NATURAL)
 GAS FROM SUBJECT FORMATION (herein)
 sometimes referred to as "Gas"))

VIRGINIA GAS
AND OIL BOARD

DOCKET NO.

VGOB 92-0317-0205

LEGAL DESCRIPTION:)

DRILLING UNIT SERVED BY WELL NUMBERED)
 EH-65, TRACT 550-E, HAYSI QUADRANGLE)
 WILLIS MAGISTERIAL DISTRICT,)
 DICKENSON COUNTY, VIRGINIA)
 (the "Subject Lands" are more)
 particularly described on Exhibit)
 "A", attached hereto and made a)
 part hereof))

REPORT OF THE BOARDFINDINGS AND ORDER

1. Hearing Date and Place: This matter came on for hearing before the Virginia Gas and Oil Board (hereafter "Board") at 9:00 a.m. on March 17, 1992, Dickenson Conference Room, Southwest Virginia Education 4-H Center, Abingdon, Virginia.

2. Appearances: Stanford T. Mullins and David Street of Street, Street, Street, Scott and Bowman, appeared for the Applicant; Sandra B. Riggs, Assistant Attorney General, was present to advise the Board.

3. Jurisdiction and Notice: Pursuant to § 45.1-361.1 et seq., Virginia Code, 1950 as amended, the Board finds that it has jurisdiction over the subject matter. Based upon the evidence presented by Applicant, the Board also finds that the Applicant has (1) exercised due diligence in conducting a meaningful search of reasonably available sources to determine the identity and whereabouts of each gas or oil owner, coal owner, or mineral owner having an interest in Subject Drilling Unit underlying and comprised of Subject Lands; (2) has given notice to all parties (hereafter sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) entitled by § 45.1-361.19, Virginia Code, 1950 as amended, to notice of this application; and (3) that the persons set forth in Exhibit B hereto are gas and oil owners identified by Applicant as having an interest in the Subject Drilling Unit. Further, the Board has caused notice of this hearing to be published as required by § 45.1-361.19.B, Virginia Code, 1950 as amended. Whereupon, the Board hereby finds that the

notices given herein satisfy all statutory requirements, Board rule requirements and the minimum standards of state due process.

4. Amendments: None.

5. Dismissals: None.

6. Relief Requested: Applicant requests (1) that pursuant to § 45.1-361.20, Code of Virginia, 1950, as amended, the Board establish Subject Drilling Unit to be served by Well No. EH-65; (2) that pursuant to § 45.1-361.21, Code of Virginia, 1950 as amended, the Board pool all the rights, interests and estates to Gas in Subject Formation in Subject Drilling Unit, including those of known and unknown persons listed in Exhibit B attached hereto and made a part hereof, who have not voluntarily agreed to pool their interests in Subject Formation in Subject Drilling Unit, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, for the drilling and operation, including production, of Gas produced from the Subject Drilling Unit established for the formation described as the Berea, Weir, Maxon, Big Lime and Ravencliff formations (herein "Subject Formations") underlying and comprised of Subject Lands, (hereafter sometimes collectively identified and referred to as "well development and/or operation in the Subject Drilling Unit"); and, (3) that the Board designate Applicant as Operator for Well No. EH-65.

7. Relief Granted: The requested relief in this cause be and hereby is granted and: (1) Pursuant to § 45.1-361.20, Code of Virginia, 1950 as amended, the Board hereby establishes Subject Drilling Unit; (2) pursuant to § 45.1-361.21.C.3, Code of Virginia, 1950 as amended, Virginia Gas Company (hereafter "Unit Operator") is designated as the Operator authorized to drill and operate Well No. EH-65 in the Subject Drilling Unit to produce Gas from Subject Formations underlying Subject Lands, subject to the permit provisions contained in § 45.1-361.27 et seq., Code of Virginia, 1950 as amended, to § 480-05-22.1 et seq., Gas and Oil Regulations and to § 480-05-22.2 et seq., Virginia Gas and Oil Board Regulations, all as amended from time to time; and (3) all the gas and oil interests and estates in Subject Drilling Unit, including those of the known and unknown persons listed on Exhibit "B", attached hereto and made a part hereof, and their known and unknown heirs, executors, administrators, devisees, trustees, assigns and successors, both immediate and remote, leased or unleased, who have not voluntarily agreed to pool their interest in the Subject Drilling Unit, be and hereby are pooled for the drilling and operation, including production, of Gas produced from the Subject Formations in the Subject Drilling Unit underlying and comprised of the Subject Lands.

<u>Subject Formations</u>	<u>Unit Size</u>	<u>Permitted Well Location</u>	<u>Field and Well Classification</u>
Berea, Weir, Maxon, Big Lime, and Ravencliff	Approximately 125.66-acre circular drilling unit	EH-65 (See Exhibit A for location)	No applicable field rules; conventional gas well

For the Subject Drilling Unit
underlying and comprised of the Subject
Land Served by Well No. EH-65

Dickenson County, Virginia.

8. Election and Election Period: Each person listed herein in Exhibit B may elect one of the options set forth in Paragraph 9 below and must give written notice of his election of the option selected under Paragraph 9 herein

to the designated Unit Operator at the address shown below within thirty (30) days from the date this Order is recorded in the county above named. A timely election shall be deemed to have been made if, on or before the last day of said 30-day period, such electing person has delivered his written election to the designated Unit Operator at the address shown below or has duly postmarked and placed its written election in first class United States mail, postage prepaid, addressed to the Unit Operator at the address shown below.

9. Election Options:

- 9.1 Option 1 - To Participate In The Development and Operation of the Drilling Unit: Any person listed herein in Exhibit B may elect to participate in the development and operation of the Subject Drilling Unit (hereafter "Participating Operator") by agreeing to pay such Participating Operator's proportionate part of the actual and reasonable costs, including a reasonable supervision fee, of the well development and operation in the Subject Drilling Unit, as more particularly set forth in Virginia Gas and Oil Board Regulation VR 480-05-22.2, Section 10 ("Completed for Production Costs"). Further, a Participating Operator agrees to pay such Participating Operator's proportionate part of the Estimated, Completed-for-Production Costs set forth below to the Unit Operator within forty-five (45) days from the later of the date of mailing or the date of recording of this Order. The Estimated, Completed-for-Production Costs for the Subject Drilling Unit are as follows:

Estimated, Completed-for-Production Costs - \$263,925.00
(Well No. EH-65)

A Participating Operator's proportionate cost hereunder shall be that proportion of said costs which the number of net mineral acres in the Subject Drilling Unit owned or claimed by such Participating Operator bears to the total number of mineral acres in Subject Drilling Unit. Provided, however, that in the event a Participating Operator elects to participate and fails or refuses to pay his proportionate part of the Estimated, Completed-for-Production Costs as set forth above, all within the time set forth herein and in the manner prescribed in Paragraph 8 of this Order, then such Participating Operator shall be deemed to have elected not to participate and to have elected compensation in lieu of participation pursuant to Paragraph 9.2 herein.

- 9.2 Option 2 - To Receive A Cash Bonus Consideration: In lieu of participating in the development and operation of Subject Drilling Unit under Paragraph 9.1 above, the owner of an unleased interest may elect to accept a cash bonus consideration of \$5.00 per net mineral acre owned by such person commencing upon entry of this Order and continuing annually until commencement of production from Subject Drilling Unit, together with a royalty of 1/8th of 8/8ths [twelve and one-half percent (12.5%)] of the net proceeds received by the Unit Operator for the sale of the Gas and Gas condensate produced from any well development covered by this Order (for purposes of this Order, net proceeds shall be actual proceeds received less all post-production costs incurred downstream of the wellhead, including but not limited to, all gathering, compression, treating, transportation and marketing costs, whether performed by Unit Operator or a third person) as fair, reasonable and equitable compensation to be paid to said owner. The initial cash bonus, when so elected, shall be tendered and/or paid within sixty (60) days of notice of entry of this Order and, thereafter, the annual cash bonus, if any, shall be tendered, paid or escrowed within sixty (60) days of each anniversary of entry of this Order in the event

production from Subject Drilling Unit has not theretofore commenced, and when so tendered and/or paid shall be satisfaction in full for all right, title, interests, estates, and claims of such electing person to the Gas produced from Subject Formation in the Subject Lands, except, however, for the 1/8th royalties due hereunder.

The election made under this Paragraph 9.2, when so made shall be satisfaction in full for all right, title, interests, estates and claims of such electing person in any well development covered hereby and such electing person shall be deemed to and hereby does lease and assign all its right, title, interests, estates, and claims to Gas produced from Subject Formation in the Subject Drilling Unit to the Unit Operator.

- 9.3. Option 3 - To Share In The Development And Operation As A Non-Participating Person On A Carried Basis And To Receive Consideration In Lieu Of Cash: In lieu of participating in the development and operation of Subject Drilling Unit under Paragraph 9.1 above and in lieu of receiving a cash bonus consideration under Paragraph 9.2 above, any person listed herein in Exhibit B may elect to share in the development and operation of Subject Drilling Unit on a carried basis (as a "Carried Well Operator") so that the proportionate part of the Completed-for-Production Costs hereby allocable to such Carried Well Operator's interest is charged against such Carried Well Operator's share of production from Subject Drilling Unit. All of such Carried Well Operator's rights, title, interests, estates and claims to Gas produced from Subject Formation in Subject Drilling Unit shall be deemed and hereby are assigned to the Unit Operator until the proceeds from the sale of such carried well operator's share of said production from Subject Drilling Unit (exclusive of any royalty, excess or overriding royalty, or other non-operating or non cost-bearing burden reserved in any lease, assignment thereof or agreement relating thereto covering such interest) equals three hundred percent (300%) for a leased interest or two hundred percent (200%) for an unleased interest (whichever is applicable) of such Carried Well Operator's share of the Completed-for-Production Costs allocable to the interest of such Carried Well Operator. When the Unit Operator recoups and recovers from such Carried Well Operator's assigned interest the amounts provided for above, then, the assigned interest of such Carried Well Operator shall automatically revert back to such Carried Well Operator, and from and after such reversion, such Carried Well Operator shall be treated as if it had participated initially under Paragraph 9.1 above; and thereafter, such participating person shall be charged with and shall pay his proportionate part of all further costs of such well development.

The election made under this Paragraph 9.3, when so made, shall be satisfaction in full for all rights, title, interests, estates and claims of such electing person in any well development and operation covered hereby and such electing person shall be deemed to have and hereby does assign all its rights, title, interest, estates and claims to Gas in the Subject Formations in the Subject Drilling Unit to the Unit Operator for the period of time during which its interest is carried as above provided prior to its reversion back to such electing person.

10. Failure to Properly Elect: In the event a person fails to elect within the time, in the manner and in accordance with the terms of this Order, one of the alternatives set forth in Paragraph 9 above, then such person shall be deemed to have elected not to participate in the proposed development and operation of Subject Drilling Unit and shall be deemed to have elected to accept

as satisfaction in full for all such person's right, title, interests, estates and claims the consideration provided in Paragraph 9.2 above for which its interest qualifies and shall be deemed to have leased and/or assigned all his right, title, interests, estates and claims to Gas to be produced from Subject Formation in the Subject Drilling Unit to the Unit Operator. Persons who fail to properly elect shall be deemed to have accepted the compensation and terms set forth herein at Paragraph 9.2 in satisfaction in full for all right, title, interests, estates and claims of such person to Gas to be produced from Subject Formation in the Subject Lands.

11. Default By Participating Person: In the event a person elects to participate under Paragraph 9.1, but fails or refuses to pay, to secure the payment or to make an arrangement with the Unit Operator for the payment of such person's proportionate part of the Estimated Completed-for-Production costs as set forth herein, all within the time and in the manner as prescribed in this Order, then such person shall be deemed to have withdrawn his election to participate and shall be deemed to have elected to accept as satisfaction in full for such person's right, title, interest, estates and claims the cash bonus consideration provided in Paragraph 9.2 above for which his interest qualifies depending on the excess burdens attached to such interest. Whereupon, any such cash bonus consideration due as a result of such deemed election shall be tendered and/or paid by Unit Operator within sixty (60) days after the last day on which such defaulting person under this Order should have paid his proportionate part of such cost or should have made satisfactory arrangements for the payment thereof. When such cash bonus consideration is so tendered and/or paid, it shall be satisfaction in full for all right, title, interests, estates and claims of such person to Gas to be produced from Subject Formation in the Subject Lands covered hereby.

12. Assignment of Interest: In the event a person elects or fails to elect to do other than participate under Paragraph 9.1 above in the development and operation of the well in Subject Formations in Subject Drilling Unit, then such person shall be deemed to have and shall have assigned unto Unit Operator all of such person's right, title, interests, estates and claims in and to said well, in Subject Formations in Subject Drilling Unit, and other share in Gas production to which such person may be entitled by reason of any election or deemed election hereunder.

13. Unit Operator (or Operator): The Applicant, Virginia Gas Company, be and hereby is designated as Unit Operator authorized to drill and operate Gas Well No. EH-65 in Subject Formations in Subject Drilling Unit, all subject to the permit provisions contained in Section 45.1-361.27 et seq., Code of Virginia, 1950 as amended, §§ 480-05-22.1 et seq., Gas and Oil Regulations and §§ 480-05-22.2 et seq., Virginia Gas and Oil Board Regulations, all as amended from time to time, and all elections required by this Order shall be communicated to Unit Operator in writing at the address shown below:

Virginia Gas Company
P. O. Box 2407
Abingdon, VA 24210
Phone: (703) 676-2380
Attn: Mike Edwards

14. Commencement of Operations: Unit Operator shall commence or cause to commence operations for the drilling of any well covered hereby within three hundred and sixty-five (365) days from the date of this Order and shall prosecute the same with due diligence. If Unit Operator shall not have so commenced and/or prosecuted, then this Order shall terminate, except for any cash sums becoming payable hereunder; otherwise, unless sooner terminated by Order of the Board, this Order shall expire at 12:00 P.M. on the date on which any well covered by this Order is permanently abandoned and plugged. However, in the event an appeal is taken from this Order, then the time between the filing of the Petition for

Appeal and the final Order of the Circuit Court shall be excluded in calculating the one year period referenced to herein.

15. Operator's Lien: Unit Operator, in addition to the other rights afforded hereunder, shall have a lien and a right of set off on the mineral estates, rights, and interests owned by any person subject hereto who elects to participate under Paragraph 9.1 in the Subject Drilling Unit to the extent that costs incurred in the drilling or operation on the Subject Drilling Unit are a charge against such person's interest. Such liens and right of set off shall be separable as to each separate person and shall remain liens until the Unit Operator drilling or operating any well covered hereby has been paid the full amounts due under the terms of this Order.

16. Escrow Provisions:

16.1 Escrow Account: By this Order, the Board instructs the Escrow Agent named herein or any successor named by the Board to establish an interest-bearing escrow account, (herein "the Escrow Account") to receive and account to the Board pursuant to its agreement for the escrowed funds hereafter described:

Tazewell National Bank
P. O. Box 909
Tazewell, VA 24651
(herein "Escrow Agent")

16.2 Escrow Provisions For Unknown or Unlocatable Persons: If any payment of bonus, royalty payment or other payment due and owing under this Order cannot be made because the person entitled thereto cannot be located or is unknown, then such cash bonus, royalty payment, or other payment shall not be commingled with any funds of the Unit Operator and shall, pursuant to Section 45.1-361.21.D, Code of Virginia, 1950 as amended, be deposited by the operator into the Escrow Account, commencing within sixty (60) days of notice of entry of this Order, and continuing thereafter on a monthly basis with each deposit to be made, by use of the report format approved by the Inspector, by a date which is no later than sixty (60) days after the last day of the month being reported and/or for which funds are subject to deposit. Such funds shall be held for the exclusive use of, and sole benefit of the person entitled thereto until such funds can be paid to such person(s) or until the Escrow Agent relinquishes such funds as required by law or pursuant to Order of the Board in accordance with § 45.1-361.21.D., Code of Virginia, 1950 as amended.

17. Special Findings: The Board specifically and specially finds:


- 17.1 Applicant is a Delaware corporation duly authorized and qualified to transact business in the Commonwealth of Virginia;
- 17.2 Applicant claims ownership of gas and oil leases on 82.55 percent of Subject Drilling Unit and the right to explore for, develop and produce conventional natural gas from same.
- 17.3 Applicant is an operator in the Commonwealth of Virginia and has satisfied the Board's requirements for operations in Virginia;
- 17.4 Applicant has proposed the drilling of Well No. EH-65 on the Subject Drilling Unit to develop the pool in Subject Formations.
- 17.5 Respondents are listed on Exhibit "B". Set forth in Exhibit "B" is the name and last known address of each person of record identified by Applicant as having an interest in Subject Drilling Unit underlying and comprised of Subject Lands (including those who have not, in writing, leased to or voluntarily pooled their interests in Subject Drilling Unit for its development).

- 17.6 The proposed depth of Well No. EH-65 is 4,445 feet.
- 17.7 The estimated and allowable production over the life of the proposed well is 300,000 MCF.
- 17.8 Applicant's evidence established that the fair, reasonable and equitable compensation to be paid to any person in lieu of the right to participate in any well covered hereby are those options provided in Paragraph 9 above.
- 17.9 The Subject Drilling Unit does not constitute an unreasonable or arbitrary exercise of Applicant's right to explore for or produce Gas.
- 17.10 The relief requested and granted is just and reasonable, is supported by substantial evidence and will afford each person in the Subject Drilling Unit the opportunity to recover or receive, without unnecessary expense, each person's just and fair share of the production of Gas from Subject Formation in Subject Drilling Unit. The granting of the Application and relief requested therein will ensure to the extent possible the greatest ultimate recovery of conventional gas, prevent or assist in preventing the various types of waste prohibited by statute and protect or assist in protecting the correlative rights of all persons in the subject common sources of supply in the Subject Lands. Therefore, the Board is entering an Order granting the relief herein set forth.
18. Mailing Of Order And Filing Of Affidavit: Applicant or its Attorney shall file an affidavit with the Secretary of the Board within sixty (60) days after the date of receipt of this Order stating that a true and correct copy of said Order was mailed within seven (7) days from the date of receipt of this Order to each person pooled by this Order whose address is known.
19. Availability of Unit Records: The Director shall provide all persons not subject to a lease with reasonable access to all records for Subject Drilling Unit which are submitted by the Unit Operator to said Director and/or his Inspector(s).
20. Conclusion: Therefore, the requested relief and all terms and provisions set forth above be and hereby are granted and IT IS SO ORDERED.
21. Effective Date: This Order shall be effective on the date of its execution.

DONE AND EXECUTED this 19th day of November, 1992, by a majority of the Virginia Gas and Oil Board.

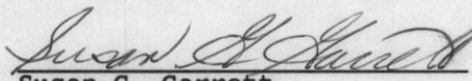

Chairman, Benny R. Wampler

DONE AND PERFORMED this 19th day of November, 1992, by Order of this Board.


Byron Thomas Fulmer
Principal Executive To The Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WISE)

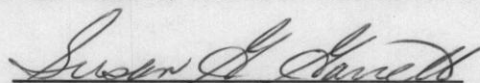
Acknowledged on this 19th day of November, 1992, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.


Susan G. Garrett
Notary Public

My commission expires 7/31/94

STATE OF VIRGINIA)
COUNTY OF WISE)

Acknowledged on this 19th day of November, 1992, personally before me a notary public in and for the Commonwealth of Virginia, appeared Byron Thomas Fulmer, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board, that he executed the same and was authorized to do so.


Susan G. Garrett
Notary Public

My commission expires 7/31/94

EXHIBIT "B"
EH-65 UNIT

BOOK 287 PAGE 508

I) Gas and Oil Owners having an interest in the Proposed Unit:

Unleased

Paul Damron
631 Red Hart
Hampton, VA 23360

Elmer Damron
203 Lyn Haven
Hampton, VA 23360

Benny Damron
1032 Whippingham Road
Carrollton, VA 23314

Harold Warren Damron
430 Lucas Creek Road
Newport News, VA 23605

Harry Damron
Rt 2, Box 168
Carrollton, VA 23314

Fred Lee Damron
1204 Gail Ct
Newport News, VA 23605

Unknown Heirs of Nancy Hill
Address Unknown

VIRGINIA. In the Clerk's Office of the Circuit Court of Dickenson County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 19 day of November, 1992 1:15p M.
Deed Book No. 287 and Page No. 517.

TESTE: [Signature]

Clerk

Filed and acknowledged
Dickenson County, Virginia
Clerk's Office Circuit Court

11/25/92
30.00

Recorded Deed Book

102-2410-12

102-2410-12

102-2410-12

102-2410-12

102-2410-12

102-2410-12

102-2410-12

102-2410-12

102-2410-12

LATITUDE 37° 15' 00"

LONGITUDE 82° 17' 30"

TOTAL UNIT AREA
= 125.66 ACRESCOORDINATE SYSTEM BASED ON
CLINCHFIELD COAL CO.
COORDINATE SYSTEMBIG SANDY FUEL
CLINCHFIELD COAL CO.
PEGASUS RESOURCE - coal
PINE MOUNTAIN OIL & GAS
oil & gas
0.03 AC. - 0.02%UNITED STATES OF AMERICA
TRACT 550 E-1
SURFACE, COAL, OIL & GAS
19.25 AC. - 15.32%LORREIGN MARTIN
coal, oil
SARAH WOOD - gas

18.73 AC. - 14.90%

COORDINATES OF WELL
N 51797.99
E 16767.60

TO RT. 739

N 69°57'15" W
2176.11'

ROUTE

ACCESS
ROADN 89°42'57" W
194.03' IPS 62°47'48" W
171.56' IP

EH - 65

UNITED STATES OF AMERICA
surface
LORREIGN MARTIN
coal, oil
SARAH WOOD - gas
25.81 AC. - 20.54%UNITED STATES OF AMERICA
TRACT 550-E
SURFACE, COAL, OIL & GAS
44.09 AC. - 35.09%

POUND RIVER

C.A. WILLIS
70.15 AC. TRACT
CLINCHFIELD COAL CO.
PEGASUS RESOURCE - coal
PINE MOUNTAIN OIL & GAS
oil & gas
14.53 AC. - 11.56%J.R. BELCHER
250.07 AC. TRACT
CLINCHFIELD COAL CO.
PEGASUS RESOURCE - coal
PINE MOUNTAIN OIL & GAS
oil & gas
3.22 AC. - 2.57%

CAVE BRANCH

COMPANY Edwards & Harding Petroleum CompanyADDRESS P.O. Box 2404 Abingdon, Virginia 24210WELL NAME EH - 65FARM UNITED STATES OF AMERICA TRACT 550 - ELEASE NO. ELEVATION 1580.56 (Trig)ACRES QUADRANGLE HaysCOUNTY Dickenson DISTRICT WillisREG. ENGINEER X REG. NO. 8106CELESTIAL AND SURVEYOR X CERT. NO. 1340FILE NO. DRAWING NO. DATE FEBRUARY 6, 1991 SCALE 1" = 400'This plat is X new updatedThis plat X is is not based on a mine coordinate
system established for the areas of the well location

WELL LOCATION MAP

WELL NO. EH - 65+ Denotes location of well on United States
Topographic Maps, scale 1 to 24,000, lat-
itude and longitude in which being represented
by border lines as shown.COMMONWEALTH OF VIRGINIA
J. LEMAN KENDRICK
CERTIFICATION OF WELL PLATI, the undersigned, hereby certify that this
plat is correct to the best of my knowledge
and belief and shows all the information
required by law and regulations of the
Va. Well Review Board SURVEYORRegistered Engineer or Certified
Land Surveyor in Charge

EXHIBIT A